

petrosar

Petrosar Limited
Annual Report
1975



PETROSAR LIMITED
242 Indian Road South
Sarnia Ontario
N7T 3W4
Telephone (519) 336-4630

ANNUAL REPORT – 1975

PRESIDENT'S MESSAGE

In reporting on our first full year since incorporation in April, 1974, it is significant to review the progress to date and to consider what remains to be done in successfully establishing Petrosar as Canada's first primary petrochemical producer of world-scale proportions.

The past year has been a period of intensifying activity for Petrosar. Construction of our plant facilities in Moore Township was 27 per cent complete at year's end. Our principal contractor, The Lummus Company Canada Limited, had completed 97 per cent of the engineering work and 90 per cent of the procurement work. Capital in the amount of about \$150,000,000 was invested this year, raising the total expenditure thus far to over \$200,000,000.

Developments in organizational matters kept pace during 1975 with construction of the plant. Our staff of permanent employees grew from 30 to 86, toward an eventual 480. Recruitment for the key management positions was completed. Work on the management systems, policies and procedures progressed to the point of establishment of the basic structures. Operational planning activities for both administration and manufacturing were firmly launched. Planning for plant commissioning and start-up reached an advanced stage. Recruitment, orientation and training of the plant work force is a current activity. Programs for safety, health, environmental protection and operations optimization are in the early stages of development.

In marketing, we are finalizing contracts for approximately 80 per cent of our 1980 sales of petrochemical and fuel products. Most of the sales commitments are long-term contracts where the price is related to the cost of crude oil, with consequent protection of our profit margins. In 1975, the contract was finalized with Union Gas Limited covering the sale of synthetic natural gas. Letters of intent were signed with B.P. Oil Limited and Canadian Fuel Marketers Ltd., for gasoline and

No. 2 fuel oil, with Shell Canada Limited for propylene, and with Dome Petroleum Limited for liquefied petroleum gas.

An office was established in Calgary during the year to prepare for the purchase of Petrosar's crude oil requirements. At year-end, the office was acting as the crude oil purchasing agent for Clark Oil and Refining Corporation. Agreement was reached with Sun Oil Company Limited for use of their existing Sarnia dock for marine transport of Petrosar's fuel products.

The year 1975 also brought some disappointments. A strike of Sarnia area construction workers occurred on June 2, and lasted six weeks. A reappraisal of project costs made after resumption of construction indicated an increase of about \$63 million in the fixed capital cost prediction relative to the prediction at the beginning of the year, due to strike effects and other inflationary pressures. This raised the new total fixed capital cost prediction to about \$380 million. Further analysis of factors influencing the construction schedule led to the conclusion that a delay in completion of about three months is probable.

The increase in the predicted fixed capital requirements, the anticipated three-months' completion delay, and higher working capital requirements, increased the total estimated peak financing requirements to approximately \$575 million compared to \$430 at the beginning of the year. At year-end, negotiations were underway for substantially increasing the financing provided by our banks, The Toronto Dominion Bank, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Bank of Montreal, and Banque Canadienne Nationale. We are confident that these banks will continue the support given us earlier.

Another event relative to the financing occurred in 1975: the Canada Development Corporation subscribed for approximately 20 per cent of the

shares of Petrosar, with consequent reduction in the percentage of shares held by Polysar Limited to about 40 per cent. Du Pont of Canada Limited and Union Carbide Canada Limited each holds 20 per cent of the shares.

As for the future, we are excited to be part of a project of such vital significance nationally and locally. Petrosar will have the ability to supply the basic petrochemical feedstocks to enable expansion of the manufacture of chemical and plastics products in Canada to the extent of improving the balance of international trade by about \$500 million per year. Petrosar is the central unit in a \$1 billion expansion that will revitalize growth of the chemicals and plastics industry in the Sarnia area and provide employment for more than 1000 people. Looking at the economic environment, we are encouraged by signs of an upturn in the demand for chemical and plastic products, for this will strengthen the market demands for our products and those of our customers.

In the period that lies immediately ahead, we realize that we face serious hurdles. Paramount among these is the achievement of the quantity and productivity of labor needed to complete the construction of our plant without further delay. Another is the ability to successfully conduct the cost control and cost improvement programs which we have instituted. Recruitment of the remaining permanent staff, and the moulding of the staff into an effective working team, is a demanding effort of vital importance for 1976.

To fulfill its mission and properly serve the community and its customers, it is essential that Petrosar be cost-competitive. As a Canadian producer we suffer certain handicaps compared to our major competitors in the United States, particularly with respect to construction costs and interest rates. The recent action by the United States Government to control crude oil prices has

introduced a new problem. Canadian users of crude oil derivatives who compete in import and export markets with U.S. industries can suffer further disadvantages if the price of crude oil in Canada were to rise above that of the average U.S. price. Since Petrosar would be affected, we are, therefore, anxiously following developments in the Governments' crude oil pricing policies.

Whatever are the current and future challenges facing Petrosar, we know that the key to successfully meeting them lies in our human resources. We also realize that the technical orientation of our industry, the dependence upon us of our customers, and our investment of over \$1 million per employee, impose upon our staff the requirement for a high degree of professionalism. Consequently, we have from the outset placed heavy emphasis on high standards in our recruiting programs and on the establishment of a management style that will stimulate the growth and the contributions of every employee. We are pleased with the progress to date in both areas. Our present staff is of the highest calibre, enthusiastically dedicated to the achievement of our goals through the application of teamwork.

We are confident that our organization can complete the tasks that lie ahead in placing our company on a sound operating basis. In this endeavour, our staff includes many individuals on assignment from the organizations of Du Pont, Polysar and Union Carbide serving Petrosar in key positions. For their many significant contributions we are extremely grateful. To the entire staff we wish to express our appreciation for the long hours of intensive effort they have devoted to assuring the success of our enterprise.



S. P. Smith
Feb. 16/76

PETROSAR LIMITED
242 Indian Road South
Sarnia Ontario
N7T 3W4
Telephone (519) 336-4630

Ownership	Polysar Limited	40%
	Du Pont of Canada Limited	20%
	Union Carbide Canada Limited.....	20%
	Canada Development Corporation.....	20%

Officers I. C. Rush, Chairman of the Board
S. P. Smith, President
J. P. Sheehan, Vice-President, Administration & Secretary
S. R. Stephenson, Vice-President, Manufacturing & Plant Manager

Directors G. Bracewell
Vice-President, Polysar Limited

J. S. Dewar
President, Union Carbide Canada Limited

C. A. McKenzie
Vice-President, Polysar Limited

P. K. Powell
Vice-President, Canada Development Corporation

R. J. Richardson
President, Du Pont of Canada Limited

I. C. Rush
President, Polysar Limited

S. P. Smith
President, Petrosar Limited

Estimated Investment (Including working capital)
Approximately \$575 million

Plant Site The location is an 1,100-acre site in concessions 9 and 10 in Moore Township, just east of the community of Corunna and about four miles south of Sarnia. The site is adjacent to the route of the new Highway 40.

The complex, including greenbelts on its perimeters, will occupy about 400 acres, with the remainder of the land reserved for subsequent expansion.

Products	Ethylene.....	1 billion pounds a year
	Propylene	720 million pounds a year
	C ₄ Olefins	500 million pounds a year
	Benzene.....	50 mil. U.S. gallons a year
	Aromatics	40 mil. U.S. gallons a year
	Gasoline	8,100 barrels a day
	No. 2 Fuel Oil	31,000 barrels a day
	Low Sulphur Residual Oil.....	70,000 barrels a day
	Synthetic Natural Gas.....	33 million cubic feet a day
	Liquefied Petroleum Gas.....	3,500 barrels a day

Plant Description Three main process areas in the Petrosar complex consist of:
Crude oil unit
Olefins unit
Gasoline treating and aromatics unit,
as well as storage tanks for crude oil, intermediate streams and finished products.

Project Schedule Start engineering – January 1973
Start of construction – July 1974
Begin operation – Mid-1977

Permanent Work Force About 480

Site Construction Average – 1,800
Work Force Peak – 2,500

General Contractor The Lummus Company of Canada Limited

PETROSAR LIMITED
(Incorporated under the laws of Ontario)
Balance Sheet
December 31, 1975
(with comparative figures for 1974)

Assets	<i>(in thousands)</i>	
	<u>1975</u>	<u>1974</u>
Current:		
Cash	\$ 15	\$ 13
Bank term deposits	1,480	3,206
Accounts receivable	1,866	408
Prepaid expenses	<u>308</u>	<u>211</u>
Total current assets	3,669	3,838
 Long-Term Receivables	 71	 34
 Property, plant and equipment under construction, at cost (note 2)	 202,028	 51,083
 Pre-production expenses, at cost (note 1)	 <u>3,717</u>	 <u>1,076</u>
	<u><u>\$209,485</u></u>	<u><u>\$56,031</u></u>

The accompanying notes are an integral part of the financial statements

On behalf of the Board:

I. C. Rush — Director

S. P. Smith — Director

**Liabilities
and Shareholders'
Equity**

	<i>(in thousands)</i>	
	<u>1975</u>	<u>1974</u>
Current:		
Accounts payable and accrued liabilities	\$ 21,479	\$12,363
Taxes payable	<u>406</u>	<u>86</u>
Total current liabilities	<u>21,885</u>	<u>12,449</u>
Long-Term Debt (note 3)	<u>142,100</u>	<u>28,082</u>
Total liabilities	<u>163,985</u>	<u>40,531</u>
Shareholders' equity:		
Capital stock (note 4)		
Authorized - 4,000,000 common shares without par value		
Issued - 2,610,000 common shares fully paid	43,500	13,500
Contributed Surplus	<u>2,000</u>	<u>2,000</u>
Total shareholders' equity	<u>45,500</u>	<u>15,500</u>
	<u><u>\$209,485</u></u>	<u><u>\$56,031</u></u>

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

We have examined the balance sheet of Petrosar Limited as of December 31, 1975 and the statement of changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as of December 31, 1975 and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Ontario
February 3, 1976

Peat, Marwick, Mitchell & Co.
Chartered Accountants

PETROSAR LIMITED

Statement of Changes in Financial Position

Year Ended December 31, 1975

(with comparative figures for the nine months ended December 31, 1974)

		<i>(in thousands)</i>	
		<u>1975</u>	<u>1974</u>
Source of Funds	Proceeds of long-term debt	\$114,018	\$28,082
	Issue of capital stock	30,000	13,500
	Payment on withdrawal of former shareholder	<u>—</u>	<u>2,000</u>
		<u>144,018</u>	<u>43,582</u>
Application of Funds	Long-term receivables	37	34
	Property, plant and equipment	150,945	51,083
	Pre-production expenses	<u>2,641</u>	<u>1,076</u>
		<u>153,623</u>	<u>52,193</u>
Decrease in working capital		<u>9,605</u>	<u>8,611</u>
Working capital deficiency at end of year		<u>\$ 18,216</u>	<u>\$ 8,611</u>

The accompanying notes are an integral part of the financial statements.

PETROSAR LIMITED

Notes to Financial Statements

Year Ended December 31, 1975

**1
Summary of
Significant Accounting
Policies**

(a) Plant under construction:

The cost of the facilities includes:

- (i) all charges from contractors for engineering, site improvement, buildings and equipment
- (ii) the costs of engineering work by the company
- (iii) commitment fees and interest charges on long-term debt, less interest earnings on short-term investments.

(b) Pre-production expenses:

All administrative costs are being deferred as pre-production expenses. These costs, together with the costs to be incurred in starting up the facilities, will be amortized after the plant is in operation.

(c) Basis of exchange translation:

Current liabilities originating in foreign currencies have been converted to their Canadian equivalent at year-end rates and transactions during the year have been converted at the then prevailing rates.

Long-term liabilities in non-Canadian currency have been translated at the rates in effect when the liabilities were incurred.

**2
Property,
Plant and Equipment**

The company was incorporated for the purpose of building and operating a world-scale crude oil topping and naphtha cracking complex in the vicinity of Sarnia, Ontario. Current projections indicate that the peak financing of the project, including financing during construction, start-up and working capital requirements will approximate \$575 million. Contracts for the project are primarily on a cost-plus basis. It is estimated that construction of the plant will be completed in 1977.

Financing will include bank loans as described in note 3, and prepayments from customers. Shareholders are obligated to provide all additional funds required by subscription for capital stock and subordinated debentures.

PETROSAR LIMITED
Notes to Financial Statements
Year Ended December 31, 1975

Costs incurred to December 31, were:

	<i>(in thousands)</i>	
	<u>1975</u>	<u>1974</u>
Land	\$ 3,239	\$ 3,140
Buildings	2,708	267
Machinery and equipment	<u>196,081</u>	<u>47,676</u>
	<u>\$202,028</u>	<u>\$51,083</u>

3 Long-Term Debt The company has arranged with a group of Canadian banks for a term loan of \$265 million and a demand operating loan of \$35 million. The first \$135 million of the term loan may be advanced, at the banks' option, in the equivalent amount of U.S. funds and bears interest during the five years from September 19, 1974 at 120% of the average prime rate of specified New York banks and at 122.5% thereafter until March 1, 1985. Amounts advanced under the term loan in Canadian funds bear interest at .75% above the Canadian prime rate until March 1, 1985 and thereafter at rates to be agreed upon. Quarterly repayments, at a minimum of \$7.5 million, are expected to commence 12 months after completion of the facilities or June 1, 1979, whichever is the earlier.

The company is committed to issue and the shareholders are committed to purchase \$19 million of debentures subordinated to rights of the banks under the bank loan agreement.

Loans outstanding at December 31 were:

	<i>(in thousands)</i>	
	<u>1975</u>	<u>1974</u>
(a) Repayable in U.S. funds (U.S. \$103.8 million)	\$104,825	\$22,832
(b) Repayable in Canadian funds	<u>37,275</u>	<u>5,250</u>
	<u>\$142,100</u>	<u>\$28,082</u>

In the event that exchange rates prevailing at December 31, 1975 were to prevail until the loans are repaid, the amount of long-term debt would increase by approximately \$650 thousand.

PETROSAR LIMITED
Notes to Financial Statements
Year Ended December 31, 1975

The company is negotiating with the same group of Canadian banks for a further term loan of up to \$55 million and a further demand operating loan of \$35 million. Amounts advanced under the further term loan may be converted and reconverted on a restricted basis between Canadian funds and equivalent U.S. funds. Loans outstanding in Canadian funds would bear interest at 1.25% above the Canadian prime rate until March 1, 1985 and loans outstanding in U.S. funds would bear interest at 1.50% above the London Interbank Offered Rate for U.S. dollars. These negotiations contemplate increasing minimum quarterly repayments to a total of \$8.9 million and a commitment by the shareholders to subscribe for subordinated debentures or capital stock in an amount equivalent to the further term loan drawn.

4 Capital Stock During the year 1,800,000 shares of capital stock were issued for \$30 million cash. In January, 1976, 390,000 shares were issued for \$6.5 million cash. Following this transaction capital stock is owned by:

Polysar Limited	40.2%
Canada Development Corporation	19.8%
Du Pont of Canada Limited	20.0%
Union Carbide Canada Limited	20.0%
	<u>100.0%</u>

While bank loans are outstanding, dividends may not be declared until specified conditions, including net working capital levels, have been met. Dividends are not expected to be declared until after 1980.

5 Statements of Income and Retained Income The company had no operating income during the period other than income from investments of temporarily surplus funds. All expenses, net of this income, have been deferred as pre-production expense or capitalized as part of the cost of property, plant and equipment.

PETROSAR LIMITED
Notes to Financial Statements
Year Ended December 31, 1975

6
Income Taxes The company expects to be able to reduce future years' income taxes arising from operations by application, for tax purposes, of its pre-production expenses net of interest and other income capitalized. These anticipated tax recoveries, approximating \$1.3 million, and related deferred tax credits of the same amount are not reflected in the balance sheet. The tax recoveries expire in 1979 and 1980.

Investment tax credits amounting to approximately \$4.6 million which result from eligible capital expenditures subsequent to June 23, 1975, may be available to reduce taxes payable in future years.

7
Commitments At December 31, 1975 the company was committed to spend approximately \$67.0 million for acquisition of capital assets. Under long-term sales agreements the company is committed to supply a major portion of its products to its shareholders and others.

8
Supplementary Information Interest and commitment fees on long-term debt, amounting to \$8,904,000. in 1975 (\$1,455,000. in 1974), have been capitalized. The aggregate direct remuneration to and payments for services of senior officers of the company totalled \$441,000. (\$239,000. in 1974). No remuneration was paid to directors of the company.

9
Anti-Inflation Restrictions The Company is subject to the Anti-inflation Act and Regulations which became effective on October 14, 1975. As a result, the Company's policies with respect to prices, profit margins, compensation and dividends subsequent to that date may be restricted.



